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SPOONER

MINES AND OILS LIMITED

March

ANNUAL REPORT

FOR THE YEAR ENDED
JUNE 30th 1975

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SPOONER MINES AND OILS LIMITED

Head Office: Suite 916
111 Richmond Street West
Toronto, Ontario M5H 2G4

Calgary Office P.O. Box 7307
Mailing Address: Postal Station "E"
Calgary, Alberta T3C 0K0

Directors: Maxwell Bruce, Q.C.
F. D. Corman
V. N. Harbinson
A. G. Matthew
R. A. Shaw
D. C. Vickers

Officers: V. N. Harbinson
Chairman of the Board & President
F. D. Corman
Vice-President
D. C. Vickers
Secretary
A. G. Matthew
Treasurer
R. A. Shaw
Assistant Secretary
S. D. Epp
Assistant Treasurer

Transfer Agent and Registrar: Crown Trust Company
Toronto, Ontario

Legal Counsel: Manning, Bruce, Macdonald & Macintosh
Toronto, Ontario

Auditors: Thorne Riddell & Co.
Toronto, Ontario

Share Listing: The Toronto Stock Exchange

SPOONER MINES AND OILS LIMITED

Directors' Report

TO THE SHAREHOLDERS

Your Directors are pleased to present the Annual Report of the Company which includes the financial statements and Auditors' Report for the year ended June 30, 1975.

MINING

Consolidated Durham Mines & Resources Limited:

Spooner Mines and Oils Limited manages the overall affairs of Durham's antimony mine, situated in the Province of New Brunswick, under a contractual agreement whereby Spooner receives 15% of the net income after taxes from the Durham operation. Further details of this agreement are referred to in the Auditors' notes which accompany the financial statements.

Highlights of the Durham operation for its year ended June 30, 1975 are as follows:

1. Revenue from production of antimony concentrates was \$5,654,000 which resulted in a mine operating profit of \$2,991,000. Net earnings before taxes on income amounted to \$1,495,000 for the year or approximately 30 cents per Durham share. Although provision was made for deferred taxes on income, none was payable or due in that financial year.
2. A major increase in ore reserves which now stand at 503,795 tons of drill indicated and proven ore grading 5.10% antimony as contrasted to the 155,225 tons of 4.65% reported as at the end of June 1974. As previously reported a parallel structure contains 41,259 tons grading 2.42% antimony. Almost all the reserves are above the 645 foot horizon. When operations started in 1971 reserves were calculated at 108,647 tons. Since that 1971 calculation some 183,000 tons have been mined and the opinions then expressed that the property would have excellent prospects for a long life are being confirmed. Surface diamond drilling and underground development are continuing.
3. Operations for the year were free of major interruptions and between ninety-five and one hundred persons were employed. Production for the year amounted to 3,463 metric tons of concentrate grading 66.13% antimony contained, and average mill recovery was approximately 92% of the antimony in the ore.
4. Antimony prices softened during the year from a high of \$35 per metric ton unit (22 lbs.) to \$18 per unit. Current prices for antimony ores are in the \$19 to \$20 range.
5. Inventory of antimony concentrates at estimated net realizable value at June 30, 1975 approximated \$1,450,000. Durham now reports that all inventories on hand at that date have been sold and that contracts for the sale of its products covering anticipated production through December 31, 1976 have been arranged.
6. Durham is considering initiating a dividend policy but one that is consistent with the financial security of the Company.

Spooner continues to hold 390,625 shares of Consolidated Durham Mines & Resources Limited.

NBU Mines Limited:

Spooner holds 155,750 shares of NBU Mines Limited. NBU directly and indirectly owns a 33% interest in a base metal deposit in the Sturgeon Lake area of Northwestern Ontario. Construction and development of the property was completed in early 1975 and in February 1975 the mine was officially placed on stream with a rated capacity of 1,200 tons per day. Open pit reserves at that time were calculated at 2,172,000 tons having an average dilute grade of 2.8% copper, 10.19% zinc, 1.42% lead, 5.82 ounces silver and .021 ounces gold per ton. The above figures exclude ore which may be mined at a later date by underground methods. The property is large, comprising approximately 3,238 acres, and holds good potential for the locating of further orebodies. The property is under the management of Falconbridge Copper Limited.

MINING EXPLORATION

Mining exploration this year was on a limited basis and there is nothing of significance to report.

Spooner has continued its joint mining ventures with Parnasse Delaware Company Inc., (a wholly-owned subsidiary of Le Societe Miniere et Metallurgique de Penarroya of France) in the Western U.S.A., and with Imperial Oil Enterprises Limited (a wholly-owned subsidiary of Imperial Oil Limited) in the Hopes Advance Bay area of Northern Quebec.

SPOONER MINES AND OILS LIMITED

Directors' Report (continued)

Phelps Dodge Corporation of New York has dropped its option covering certain claims in Lander County, Nevada, U.S.A., in which Spooner holds a 25% interest. The Company also retains interests through New Quebec Mining and Exploration Limited and its subsidiaries in several million acres of exploration applications and permits for petroleum and minerals on the north coast of Greenland.

OIL AND GAS

The Company retains its holdings in various areas of Western Canada. A part of its holdings in the Canadian Arctic have been reduced as a result of unsuccessful drilling by Panarctic Oils Limited in certain areas. The relinquishing of these holdings was the decision of the Consortium. Spooner's Arctic interest now comprises 0.73805% in approximately 4,000,000 acres situated on Prince of Wales, Bathurst and Ellef Ringnes Islands.

FINANCIAL

Net income for the year amounted to \$92,000 as compared to a loss of \$51,000 in the prior year. Working capital at June 30th was \$177,500 as compared to \$95,700 in the prior year. This figure excludes Spooner's share holdings in Consolidated Durham and its free shares in NBU Mines Limited which have a combined market value of \$460,000. In

addition, Spooner owns 43,740 escrow shares in NBU Mines Limited carried at \$1.00, although in management's opinion, they have a value approximating that of the free shares of NBU Mines Limited.

You will note in the accompanying Information Circular that the Company has passed a By-law to increase its authorized capital to 10,000,000 shares without par value from its present authorized capital of 8,500,000 shares. Although the Company has no immediate plans for the issuance of these shares, it has been evaluating various projects and opportunities which, if feasible, will enhance the Company's cash flow. If implemented, the issuance of some of these shares may be necessary to conclude successfully any financing arrangement.

Management is confident that with your continuing support, Spooner Mines and Oils Limited can rapidly achieve and enhance its objectives in the natural resource field.

On behalf of the Board,

V. N. HARBINSON
Chairman of the Board and President

Toronto, Canada
November 3, 1975

SPOONER MINES AND OILS LIMITED

(Incorporated under the laws of Canada)

Balance Sheet as at June 30, 1975

ASSETS		
	1975	1974
Current assets		
Cash.....	\$ 32,503	\$ 10,197
Accounts receivable.....	227,953	302,441
Marketable securities, at cost (quoted market value, 1975, \$7,913; 1974, \$7,112).....	8,987	8,987
Deposits and prepaid expenses.....	1,000	1,000
	<u>270,443</u>	<u>322,625</u>
Interest in and advances to other companies (note 1).....	520,381	513,565
Oil and gas interests (notes 2 and 6).....	<u>102,647</u>	<u>105,662</u>
Other assets and deferred expenditures		
Mining claims (notes 3 and 6).....	79,000	79,000
Exploration expenditures deferred (notes 6 and 7).....	319,519	312,159
Office equipment and vehicle, at cost less accumulated depreciation.....	1,850	2,642
	<u>400,369</u>	<u>393,801</u>
	<u>\$1,293,840</u>	<u>\$1,335,653</u>

LIABILITIES		
Current liabilities		
Bank advances and loans secured.....		\$ 75,000
Accounts payable and accrued liabilities.....	\$ 92,942	151,908
	<u>92,942</u>	<u>226,908</u>

SHAREHOLDERS' EQUITY		
Capital stock (note 4)		
Authorized—8,500,000 shares without par value		
Issued —8,014,788 shares.....	4,050,059	4,050,059
Deficit.....	<u>2,849,161</u>	<u>2,941,314</u>
	1,200,898	1,108,745
	<u>\$1,293,840</u>	<u>\$1,335,653</u>
Contingent liabilities (note 9)		

Approved by the Board

V. N. HARBINSON, Director

A. G. MATTHEW, Director

SPOONER MINES AND OILS LIMITED

Statement of Deficit year ended June 30, 1975

	1975	1974
Deficit at beginning of year.....	\$2,941,314	\$2,890,089
Net income (loss).....	92,153	(51,225)
Deficit at end of year.....	<u>\$2,849,161</u>	<u>\$2,941,314</u>

Statement of Income year ended June 30, 1975

	1975	1974
Revenue		
Management fees (net) (note 8).....	\$ 157,000	\$ 16,900
Profit from oil and gas operations.....	19,048	17,762
Interest earned.....	11,394	72,896
Income before undernoted items.....	<u>187,442</u>	<u>107,558</u>
Exploration and administrative expenditures written off.....	94,717	167,413
Mining claims written off.....		47,040
Unproductive oil and gas lease costs, development expenditures and production equipment written off.....	131	41,542
Loss on sale of equipment.....	<u>441</u>	<u>1,043</u>
	95,289	257,038
Less profit on sale of marketable securities.....		98,255
	<u>95,289</u>	<u>158,783</u>
Net income (loss).....	<u>\$ 92,153</u>	<u>\$ (51,225)</u>
Income (loss) per common share.....	\$ 0.011	\$ (0.006)

SPOONER MINES AND OILS LIMITED

Statement of Changes in Financial Position year ended June 30, 1975

	1975	1974
Working capital derived from		
Income before undernoted items as shown on statement of income.....	\$ 187,442	\$ 107,558
Add depreciation and depletion not requiring current outlay of working capital.....	3,399	3,864
	190,841	111,422
Decrease in advances to other companies.....	13,456	
Decrease in deferred accounts receivable reclassified as current assets in 1974		372,359
Proceeds from sale of shares in other companies.....		163,662
	204,297	647,443
Working capital applied to		
Oil and gas interests.....	957	2,413
Interest in and advances to other companies.....	20,272	55,105
Exploration and administrative expenditures less depreciation of \$793 (1974, \$1,132).....	101,284	120,749
	122,513	178,267
Increase in working capital position.....	81,784	469,176
Working capital (deficiency) at beginning of year.....	95,717	(373,459)
Working capital at end of year.....	<u>\$ 177,501</u>	<u>\$ 95,717</u>

Auditors' Report

To the Shareholders of
Spooner Mines and Oils Limited

We have examined the balance sheet of Spooner Mines and Oils Limited as at June 30, 1975 and the statements of income, deficit and changes in financial position for the year then ended. Our examination included a general review of the accounting procedures and such tests of accounting records and other supporting evidence as we considered necessary in the circumstances.

In our opinion these financial statements present fairly the financial position of the company as at June 30, 1975 and the results of its operations and the changes in its financial position for the year then ended, in accordance with generally accepted accounting principles applied on a basis consistent with that of the preceding year.

Toronto, Canada
September 15, 1975

THORNE RIDDELL & Co.
Chartered Accountants

SPOONER MINES AND OILS LIMITED

Notes to Financial Statements — year ended June 30, 1975

1. Interest in and advances to other companies

	1975	1974
(a) Consolidated Durham Mines & Resources Limited*		
390,625 shares, at cost (quoted market value at June 30, 1975—\$187,500)	\$125,000	\$125,000
Shares in NBU Mines Limited		
43,740 escrow shares (87,480 escrow shares in 1974).....	20,306	34
112,010 shares (58,870 shares in 1974) at cost (quoted market value at June 30, 1975—\$272,184).....		
Shares in New Quebec Mining and Exploration Limited		
447,000 shares, at cost less \$7,000 forfeited on option to purchase.....	366,488	366,488
480,000 escrow shares, at nominal value.....	1	1
Other shares, at cost or less.....	8,586	8,586
Advances to other companies.....		13,456
	<u>\$520,381</u>	<u>\$513,565</u>

*Because of the large number of shares held in Consolidated Durham Mines & Resources Limited, the amount that may be realized on disposal of these shares may be more or less than the quoted market value.

- (b) Under terms of an agreement dated April 5, 1973, the company was granted an option to purchase 306,000 shares of Canada Geothermal Oil Ltd. at \$1.03 per share, with a maximum number of shares to be purchased during each period as follows:

	Number of shares under option	Number of shares exercised, abated and/or allowed to lapse	Balance of shares under option at June 30, 1975
April 5 to September 23, 1973.....	92,200	92,200	
September 24, 1973 to September 23, 1974...	92,200	92,200	
September 24, 1974 to September 23, 1975...	92,200		92,200
September 24, 1975 to September 23, 1976...	29,400		29,400
	<u>306,000</u>	<u>184,400</u>	<u>121,600</u>

Subsequent to June 30, 1975, the company's option on 92,000 shares for the period September 24, 1974 to September 23, 1975 was allowed to lapse.

2. Oil and gas interests

	1975	1974
(a) Oil and gas leases, at cost.....	\$ 41,161	\$ 41,118
Development expenditures deferred.....	124,595	124,711
Production equipment, at cost.....	80,469	81,695
	<u>246,225</u>	<u>247,524</u>
Less depletion and accumulated depreciation.....	195,461	194,087
	<u>50,764</u>	<u>53,437</u>
Royalty interest, at cost less depletion.....	2,627	2,969
Participation in Arctic Oil exploration, at cost.....	49,256	49,256
	<u>\$102,647</u>	<u>\$105,662</u>

SPOONER MINES AND OILS LIMITED

Notes to Financial Statements year ended June 30, 1975 (continued)

- (b) Under letter agreements dated February 10 and 24, 1972 with Yukon Geothermal Co. Ltd. and Canada Geothermal Oil Ltd. the company and Noble Mines & Oils Ltd., having provided collateral for certain petroleum and natural gas exploration permits held by Yukon Geothermal and Canada Geothermal and having arranged equity financing for Canada Geothermal, jointly received a right to a gross overriding royalty of 0.3% of all production from the permits covered in the agreement with Yukon Geothermal and an undivided $3\frac{1}{3}\%$ working interest in the permits covered in the agreement with Canada Geothermal.

Where oil and gas reserve figures are available, depletion has been provided on the unit of production method at rates calculated to amortize the lease costs and development expenditures in the proportion production bears to estimated reserves of oil and gas. Where reserve figures are not available, amortization has been determined arbitrarily.

Unproductive oil and gas lease costs and applicable deferred development expenditures are written off when it is determined that the lease area is of no further interest to the company.

3. Mining claims

Ungava Bay, Province of Quebec..... \$79,000

Under agreements dated December 19, 1969 and February 1, 1970, the company purchased 1,192 claims and Imperial Oil Enterprises (Imperial Oil) agreed to undertake an exploration program on these claims respectively. During 1974 Imperial Oil advised that 1,089 of the claims had lapsed and that they had spent \$477,943 and thereby had earned a 75% interest in the remaining 103 claims.

If requested, Spooner is to pay its proportionate share of expenditures in excess of \$400,000 or be abated by 1% for each \$10,000 of non-participation until it reaches a minimum of 10%. The abated interest under certain circumstances is recoverable by Spooner.

To date no request for payment has been received.

4. Capital stock

Options

- (a) At June 30, 1975 employees held options on 5,000 shares at \$1.25 per share expiring on June 24, 1980.
- (b) Under various agreements dated December 18, 1970 and March 30, 1971, the company has, in consideration for services rendered to the company as its fiscal agents during the three years ended December 31, 1973, granted options on 99,000 shares of its capital stock. During the year, options on 41,666 shares were allowed to lapse leaving options on 57,334 shares exercisable as follows:

Number of shares	Exercisable at	On or before
28,667	\$2.30 per share	December 31, 1975
28,667	\$2.55 per share	December 31, 1976
<u>57,334</u>		

5. Income Taxes

No provision for income taxes is required due to the application of a portion of exploration and development expenditures deductible under the Income Tax Act. Taxes otherwise payable for the year would have amounted to \$32,600.

SPOONER MINES AND OILS LIMITED

Notes to Financial Statements year ended June 30, 1975 (continued)

The company has costs of oil and gas interests, mining exploration expenditures and depreciation available for tax purposes in future years in excess of the total of costs and expenditures deferred in the accounts at June 30, 1975 of approximately \$870,000 and loss carry forwards of approximately \$77,000 are available up to 1976 in determining taxable income.

6. Recovery of costs

At June 30, 1975 exploration expenditures amounting to \$319,519 and the cost of participation in oil and mining exploration projects amounting to \$102,647 have been deferred with the intention that they should be amortized along with the cost of mining claims by charges against income from future oil and mining operations. The recovery of these costs is dependent, therefore, upon the obtaining of adequate financing and the development of economic oil and mining operations.

7. Deferred exploration—Southern Pacific Project

In conjunction with a prior joint venture on a 50/50 basis between the company and Noble Mines & Oils Ltd., an agreement dated April 1, 1970 was entered into between the company and Parnasse Delaware Company, Inc., an American subsidiary of Societe Miniere et Metallurgique de Penarroya of Paris, France. The company's interest, together with the interest of Noble, is now 50% in total. To maintain their joint interest, the company and Noble must pay their 50% share of agreed exploration expenditures.

In the event that the company and Noble elect not to pay their share of these costs, their percentage interest is reduced accordingly until it reaches 10% in total, at which time such interest is maintained for them by Parnasse.

Under an agreement dated July 15, 1974, the company together with Parnasse, granted Phelps Dodge Corporation an undivided 51% interest in certain leases and mining claims held in the Southern Pacific project in consideration of Phelps Dodge expending \$475,000 on exploration work on the property. Subsequent to June 30, 1975 Phelps Dodge withdrew from this agreement.

8. Management contract

Under an agreement dated July 8, 1970 with respect to an antimony property at Lake George, New Brunswick, Spooner is to provide:

- (a) Pre-production management and arrange financing in consideration for an option on 750,000 shares of Consolidated Durham Mines & Resources Limited capital stock at \$1.00 per share, exercisable on or before July 8, 1975. Subsequent to June 30, 1975, this option was allowed to lapse.
- (b) Operating management after the commencement of production at cost plus 15% of net profits, as defined, from the operations for a period of five years from January 1, 1972, renewable for a further five years at Spooner's option.

9. Contingent liabilities

- (a) The company has executed a guarantee for the bank indebtedness of Consolidated Durham Mines & Resources Limited up to a maximum of \$1,800,000. The company has pledged 145,800 shares of NBU Mines Limited as security for this guarantee. At June 30, 1975, this indebtedness amounted to \$500,000 and subsequently has been increased to \$1,600,000 at September 15, 1975.
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SPOONER MINES AND OILS LIMITED

Notes to Financial Statements year ended June 30, 1975 (continued)

- (b) An action was commenced in the Supreme Court of Ontario on February 20, 1969 by Ursa Polaris Developments Corporation against all parties in a syndicate of which the company was a member, and which sold its assets to MuskoX Mines Limited for shares. In the opinion of the company's counsel, the action is without merit and the company, as well as the other defendants, is defending the action. The plaintiff has taken no steps towards trial since September 12, 1969.

The cost of shares of MuskoX Mines Limited has been written off.

- (c) Actions were commenced in the Supreme Court of Ontario on September 8, 1972 and April 30, 1973 by two former employees of the company. The company is defending both suits and, in the opinion of the company's counsel, it has good defences thereto.

10. Other statutory information

	1975	1974
Number of directors.....	6	6
Aggregate remuneration of directors as directors.....	\$ 1,100	Nil
Number of officers.....	6	6
Aggregate remuneration of officers as officers, including consulting fees.....	\$17,500	\$9,000
Number of officers who are also directors.....	5	3
Depreciation and depletion.....	\$ 4,192	\$4,996
